

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

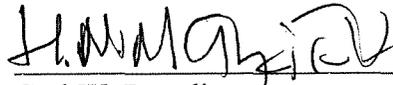
PROPOSED ADJUSTMENT OF THE WHOLESALE
WATER SERVICE RATES OF HOPKINSVILLE
WATER ENVIRONMENT AUTHORITY

} CASE NO. 2005-00174

**RESPONSE OF HOPKINSVILLE WATER ENVIRONMENT AUTHORITY
TO THE CHRISTIAN COUNTY WATER DISTRICT'S
OCTOBER 7, 2005 SECOND DATA REQUEST**

Hopkinsville Water Environment Authority ("HWEA"), through counsel, hereby submits its Response pursuant to 807 KAR 5:001 to the Second Data Request issued by the Christian County Water District ("CCWD") in this matter on October 7, 2005. Please note that HWEA's Responses in some cases refer to its Responses to the Information Requests propounded by the Public Service Commission (the "Commission"). HWEA's Responses are as follows:

Respectfully submitted,



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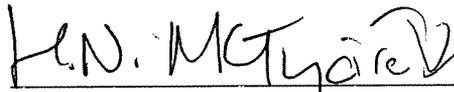
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ENVIRONMENT AUTHORITY

CERTIFICATE OF SERVICE

I hereby certify that a copy of the Response Of Hopkinsville Water Environment Authority To The Christian County Water District's October 7, 2005 Second Data Request was served by United States mail, first class, postage prepaid, to John N. Hughes, 124 West Todd Street, Frankfort, Kentucky 40601, counsel for Christian County Water District and James Owen, General Manager, Christian County Water District, 1960 Dawson Springs Road, P.O. Box 7, Hopkinsville, Kentucky 42241-0007 on this 21st day of October , 2005.



COUNSEL FOR HOPKINSVILLE WATER
ENVIRONMENT AUTHORITY

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Case No.: 2005-00174
Questions From: Christian County Water District – October 7, 2005
Response from: Hopkinsville Water Environment Authority
Sponsoring Witness: Jennings Rowe McKinley II

DATA REQUEST NO. 1.

Refer to Response 23 to CCWD. Explain how the rate adjustment using FY 2005 through 2009 financial data as the basis for the city's proposed rate increase conforms to the statutory requirement of an historical test year required by KRS 278.192.

RESPONSE:

Please see HWEA's Response to Commission Second Information Request No. 7.

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DATA REQUEST NO. 2.

Refer to Response 26b to CCWD. The response states that small mains were not included in the allocations to CCWD. On Table 14 of the Black & Veatch Report, line 9 “All Other” is described in the footnote as including small mains, storage, meters and service and hydrants. Explain why small mains, storage, meter and service and hydrants were allocated to wholesale as indicated on that table.

RESPONSE:

The category of All Other distribution consists of Water Distribution expenses not including Small Mains, Large Mains, Hydrants and Meter and Services. The footnote associated with Line 9 of Table 14 in the B&V Report refers to the allocation of All Other to the functional cost components which is the basis of Lines 2, 3, 5, 7 and 8 of Table 13.

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DATA REQUEST NO. 3.

Refer to Response 26 to CCWD. The response did not address sub part b. Explain how the rate to CCWD does not include an allocation for small mains if the rate to CCWD is calculated on the retail rate to HWEA customers times 1.3.

RESPONSE:

The rate schedule for wholesale service to the CCWD shown on Page 4 of the B&V Report is designed to recover the total cost of service allocated to the CCWD which does not include capital and operating expenses associated with Small Distribution Mains.

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DATA REQUEST NO. 4.

Refer to Table 15 of the Black & Veatch Report. Explain the “Capacity Factor” in column 3. How is this related to the 20% capacity factor discussed in relation to CCWD contract requirements?

RESPONSE:

The maximum day capacity factor, shown in Column 3 of Table 15 in the B&V Report, represents the estimated percentage relationship of the maximum rate of use to the average annual rate of use for each customer class. A capacity factor of 225 percent relates to a maximum-day rate of use that is 2.25 times the average rate. The maximum day capacity factor is not related to the 20 percent factor used for the allocation of plant investment which was based on the CCWD’s contract capacity of 2 million gallons per day (mgd) versus the total HWEA water treatment plant capacity of 10 mgd.

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DATA REQUEST NO. 5.

Refer to Response 29 to CCWD. The response does not provide the rate information requested. The reference to page 38 of the Black & Veatch Report indicates that the proposed rate is calculated on an “existing contract modification” and is based on an index of 1.3 times the applicable city rates. Provide the rate to the CCWD if the index of 1.3 is not used.

RESPONSE:

A uniform volume charge for the CCWD may be calculated by dividing the test year cost of service by the test year annual water usage. In other words, $\$854,300/432,000 \text{ Ccf} = \$1.98/\text{Ccf}$.

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DATA REQUEST NO. 6.

Refer to Response 33 to CCWD. Is HWEA proposing an historical test year or a future test year?

RESPONSE:

FY 2006 is a future test year.

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DATA REQUEST NO. 7.

Refer to Exhibit 5a of the Responses to the PSC. Ordinance 11-2005, section 12, refers to a minimum coverage of 115% or a rate adjustment is required and to the city's ability to reduce rates if the coverage equals 130%. Explain why on page 21 of the Black & Veatch Report coverage of 135% is required.

- a. Provide the debt service coverage calculations for the last 5 years.

RESPONSE:

Section 12 of Ordinance 11-2005 refers to required annual debt service coverage of 115 percent, while the 135 percent referenced in the question to page 21 of the B&V Report refers to parity bond debt service coverage as described in Section 13 of Ordinance 11-2005. HWEA has set a targeted annual debt service coverage level of 125 percent in order to provide a margin of safety above the minimum required coverage level of 115 percent. Similarly, HWEA has set a targeted parity bond debt service coverage level of 135 percent compared to the minimum required coverage level of 130 percent. Please see HWEA's Response to Commission Information Request No. 5.e.

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DATA REQUEST NO. 8.

Refer to Table 7 of the Black & Veatch Report. Which of those projects relates to service to CCWD?

RESPONSE:

Projects associated with Small Distribution Mains, Meters & Services, Hydrants, and Crofton Utility Division Improvements in Table 7 of the B&V Report are not allocated to the CCWD.